

**Last update: November 4, 2014**  
**JAPAN TOBACCO INC.**  
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CEO  
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Securities Code Number: 2914  
<http://www.jti.co.jp/>

**The current status of JT's corporate governance is as follows.**

**I. Basic Concept of Corporate Governance and Basic Information including Capital Structure and Corporate Attributes**

**1. Basic Concept**

JT recognizes that prompt and proper decision-making and business execution are vital to increasing our corporate value and responding appropriately to new challenges to come in the future, as the business and social environment change. Based on this recognition, JT has been striving hard to enhance corporate governance as a top management priority.

**2. Capital Structure**

<b>Combined equity stakes of foreign shareholders</b>	Over 30%
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**[Status of Major Shareholders] [updated]**

<b>Name</b>	<b>Number of Shares Held</b>	<b>Ratio (%)</b>
The Minister of Finance	666,930,000	33.35
The Master Trust Bank of Japan, Ltd. (Trust Account)	52,747,400	2.64
Japan Trustee Services Bank, Ltd. (Trust Account)	50,828,700	2.54
State Street Bank and Trust Company (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Sales Department).	46,623,333	2.33
JPMorgan Chase Bank 380055 (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Sales Department)	43,323,680	2.17
HSBC BANK PLC A/C THE CHILDRENS INVESTMENT MASTER FUND (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	35,402,600	1.77
State Street Bank and Trust Company 505223 (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Sales Department)	34,884,476	1.74
State Street Bank and Trust Company (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Sales Department)	34,716,512	1.74
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	33,800,000	1.69

JPMorgan Chase Bank 380072 (Standing proxy: Mizuho Corporate Bank, Ltd.,Settlement Sales Department)	15,965,003	0.80
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<b>Controlling Shareholders(excluding parent company)</b>	None
<b>Parent Company</b>	None

**[Supplementary Information] [updated]**

The Japan Tobacco Inc. Act (the “JT Act”) obligates the government to hold JT shares. As of the end of September 2014, the government held 33.35% of all outstanding JT shares as shown in the Status of Major Shareholders above.

### 3. Corporate Attributes

<b>Listed Stock Exchanges and Market Segment</b>	Tokyo (First Section)
<b>Closing month of the annual account book</b>	March
<b>Business Sector</b>	Foods
<b>Number of Employees (Consolidated basis)</b>	1,000 or more
<b>Net Sales (Consolidated basis)</b>	¥1 trillion or more
<b>Number of Consolidated Subsidiaries</b>	Between 100 and 300

### 4. Policies for Measures to protect Minority Shareholders when conducting Transactions with Controlling Shareholders.

None

### 5. Other Factors which May Materially Affect Corporate Governance

- The Japan Tobacco Inc. Act (the “JT Act”) obligates the government to hold JT shares.
- The Minister of Finance has the authority to supervise JT under the JT Act and Tobacco Business Law.
- Torii Pharmaceutical Co., Ltd. (hereinafter referred to as “Torii Pharmaceutical”), which engages in the pharmaceutical business, is a consolidated subsidiary of JT and is listed on the Tokyo Stock Exchange. While JT is responsible for research and development, Torii Pharmaceutical undertakes production and sales. In order to perform these different functions efficiently, the two companies maintain a cooperative relationship. JT respects the need to ensure a certain degree of independence for Torii Pharmaceutical by refraining from undermining the company’s business judgment.

## **II Status of Business Management Organizations Concerning Business Decision-making, Execution and Supervision, and Other Corporate Governance Systems**

### **1. Matters Relating to Organizational Structure and Organizational Management**

<b>Form of organization</b>	<b>A company with Auditors</b>
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#### **[Matters Related to Directors]**

<b>Number of Directors Stipulated in Articles of Incorporation</b>	15
<b>Term of Office for Directors Stipulated in Articles of Incorporation</b>	2 years
<b>Chairman of the Board of Directors</b>	Chairman (excluding where serving concurrently as President)
<b>Number of Directors</b>	8
<b>Appointment of Outside Directors</b>	There are sitting Outside Directors
<b>Number of sitting Outside Directors</b>	2
<b>Number of sitting Outside Directors Designated as Independent Executive</b>	2

#### **Relationship with JT (1)**

<b>Name</b>	<b>Attribute</b>	<b>Relationship with JT*</b>								
		<b>a</b>	<b>b</b>	<b>c</b>	<b>d</b>	<b>e</b>	<b>f</b>	<b>g</b>	<b>h</b>	<b>i</b>
Motoyuki Oka	Originally from another company				○				○	
Main Kohda	Originally from another company				○				○	

\* Conditions met regarding the relationship with JT

a Originally from the parent company

b Originally from other subsidiaries and affiliates

c Major shareholder of JT

d Serves as an Outside Director or Outside Auditor at another company concurrently

e Serves as an Executive Officer (Director) or Operating Officer (Non-director) at another company

f Spouse, relative within the third degree of kinship, or similar person of Executive Officer or Operating Officer of JT or specified affiliate

g Receiving compensation, etc. or other financial benefits as a Director of the parent company of JT or subsidiary of the parent company

h Limited liability agreement concluded between this individual and JT

i Others

#### **Relationship with JT (2)**

<b>Name</b>	<b>Supplementary Explanation to Corresponding Item</b>	<b>Reason for Appointment as Outside Director</b>
Motoyuki Oka	Motoyuki Oka concurrently serves as Advisor of Sumitomo Corporation, with which JT has a business relationship.	We expect that Mr. Oka will reflect his abundant experience and extensive insight into the management of global companies

	<p>Although JT has had a business relationship related to manufacturing machine, etc. with Sumitomo Corporation, for which Motoyuki Oka had served as Chairman of the Board of Directors until June 22, 2012, the transaction amount accounted for just about 0.1% of our consolidated sales revenue in the fiscal year ended March 31, 2014, which we believe has no material impacts to generate special interest.</p> <p>For more details, refer to the “Criteria for Evaluating Independence of Outside Directors and Outside Auditors” (mentioned below in “Other Items Related to Independent Executives”) established by resolution of the Board of Directors.</p>	<p>in the management of JT. JT designated him as an independent executive defined by financial instruments exchanges based on its judgment that there is no risk of causing conflicts of interest with general shareholders.</p>
Main Kohda		<p>we expect that Main Kohda will reflect in the management of JT her abundant insight into international finance, her extensive experience in teaching as a university professor and serving on governmental advisory bodies, etc., and her deep insight and objective point of view developed through her activities as a fiction writer, as well of other literary works. JT designated her as an independent executive defined by financial instruments exchanges based on its judgment that there is no risk of causing conflicts of interest with general shareholders.</p> <p>For more details, refer to the “Criteria for Evaluating Independence of Outside Directors and Outside Auditors” (mentioned below in “Other Items Related to Independent Executives”) established by resolution of the Board of Directors.</p>

**[Matters Related to Auditors]**

<b>Presence or absence of the Audit Board</b>	The Audit & Supervisory Board is in place
<b>Number of Auditors Stipulated in Articles of Incorporation</b>	4
<b>Number of Auditors</b>	4

## Cooperation among Auditors, the Independent Auditor and Internal Auditing Divisions

While Auditors, internal audit divisions including the Operational Review and Business Assurance Division, and the Independent Auditors (Deloitte Touche Tohmatsu LLC) conduct audits individually, they endeavor to enhance their cooperation in order to ensure appropriate audits, for example by sharing information on the results of their respective audits.

<b>Appointment of Outside Auditors</b>	There are sitting Outside Auditors
<b>Number of Outside Auditors</b>	2
<b>Number of Outside Auditors Designated as Independent Auditors</b>	2

### Relationship with JT (1)

Name	Attribute	Relationship with JT*								
		a	b	c	d	e	f	g	h	i
Koichi Ueda	Attorney								○	
Yoshinori Imai	Originally from another company								○	

\* Conditions met regarding the relationship with JT

a Originally from the parent company

b Originally from other subsidiaries and affiliates

c Major shareholder of JT

d Serves as an Outside Director or Outside Auditor at another company concurrently

e Serves as an Executive Officer (Director) or Operating Officer (Non-director) at another company

f Spouse, relative within the third degree of kinship, or similar person of Executive Officer or Operating Officer of JT or specified affiliate

g Receiving compensation, etc. or other financial benefits as a Director of the parent company of JT or subsidiary of the parent company

h Limited liability agreement concluded between this individual and JT

i Others

### Relationship with JT (2)

Name	Independent Executive	Supplementary Explanation to Corresponding Item	Reason for Appointment as Outside Auditor
Koichi Ueda	○		Mr. Ueda has gained abundant experience and developed a broad perspective through his service in the judicial world. In addition, JT designated Mr. Ueda as an independent executive based on the judgment that there is no risk of causing conflicts of interest with general shareholders.

			For more details, refer to the “Criteria for Evaluating Independence of Outside Directors and Outside Auditors” (mentioned below in “Other Items Related to Independent Executives”) established by resolution of the Board of Directors.
Yoshinori Imai	○	<p>Yoshinori Imai previously served for Japan Broadcasting Corporation. However, although JT pays to Japan Broadcasting Corporation reception fees pursuant to the Broadcast Act, JT judges that, because the payments are routine and immaterial and made in accordance with laws and regulations, there is no risk of causing conflicts of interest with general shareholders.</p> <p>For more details, refer to the “Criteria for Evaluating Independence of Outside Directors and Outside Auditors” (mentioned below in “Other Items Related to Independent Executives”) established by resolution of the Board of Directors.</p>	<p>Mr. Imai’s appointment is based on the judgment that he is qualified to serve as an Outside Auditor of JT because of the abundant experiences and broad insights into global policies and economics gained from performing responsibilities as Executive Vice President of Japan Broadcasting Cooperation(NHK)</p> <p>In addition, JT designated Mr. Imai as an independent executive based on the judgment that there is no risk of causing conflicts of interest with general shareholders.</p>

### Independent Executives

<b>Number of Independent Executives</b>	4
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### Other Items Related to Independent Executives

JT designate all persons who are qualified as independent executives as such. At a Board of Directors meeting, JT established a set of criteria for evaluating the independence of outside executives. According to this set of criteria, a person who fits any of the following descriptions is prohibited from serving at JT as an independent executive.

1. A person who belongs or belonged to JT or an affiliate or sister company of JT
2. A person who belongs to a corporation or other organization of which JT is a major shareholder
3. A person who is a major shareholder of JT or who belongs to a corporation or other organization which is a major shareholder of JT

4. A person who is a major supplier or customer of JT (the term person is a corporation or other organization, the prohibition also applies to a person who belongs thereto)
5. A large-lot creditor of JT, including a major loan lender (when the creditor is a corporation or other organization, the prohibition also applies to a person belonging thereto)
6. A certified public accountant who serves as an auditor or an audit advisor of JT, or a person who belongs to an auditing firm which serves as an auditor or an audit advisor of JT
7. A person who receives a large amount of fees from JT in exchange for providing professional services concerning legal, financial and tax affairs or business consulting services (the term person is a corporation or other organization, the prohibition also applies to a person who belongs thereto)
8. A person who receives a large amount of donation from JT (the term person is a corporation or other organization, the prohibition also applies to a person who belongs thereto)
9. A person who has fit any of the descriptions in 2. to 8. above in the recent past
10. A close relative of a person who fits any of the following descriptions
  - (1) A person who fits any of the descriptions in 2. to 8. above (the term person is a corporation or other organization, the prohibition also applies to a person who performs important job duties therefore)
  - (2) A director, auditor, audit advisor, executive officer or employee of JT or an affiliate or sister company of JT.
  - (3) A person who has fit the descriptions in (1) or (2) in the recent past

**[Matters Related to Incentives]**

<b>Provision of incentives to Directors</b>	Introduction of a performance-linked remuneration system and a stock option scheme
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**Supplementary Explanation Relating to the Relevant Item**

Remuneration for the senior officers comprises (1) “basic monthly pay,” (2) an “executive bonus” linked to our business performance in the relevant year, and (3) “stock option grants,” the value of which is linked to our medium-to long-term corporate value.

For more details, refer to the “Policy for Determining Among and Method of Amount and Calculation Method of Remuneration” mentioned below.

<b>Officers eligible for stock option grants</b>	In-house Directors and Others
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**Supplementary Explanation Relating to the Relevant Item**

JT introduced a stock option scheme in the fiscal year ended March 31, 2008, in order to enhance the motivation to contribute to an increase in the corporate value in the mid to long term.



## [Matters Related to Remuneration for Directors]

<b>Disclosure status</b>	Individual disclosure of remuneration for directors is limited.
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### Supplementary Explanation Relating to the Relevant Item

Total remuneration for Directors(excluding Outside Directors) in the fiscal year ended March 31, 2014 is ¥538 million, including basic remuneration of ¥319 million, bonuses of ¥111 million and stock option grants of ¥108 million.

Total remuneration for Auditors (excluding Outside Auditors) is ¥63 million.

Total remuneration for Outside Directors and Outside Auditors is ¥63 million.

The total remuneration on a consolidated basis of over ¥100 million is explained separately in the Annual Securities Report for the 29th Term.

<b>Policy for Determining Amount and Calculation Method of Remuneration</b>	Yes
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### [Disclosed Details of Policy for Determining Amount and Calculation Method of Remuneration]

JT has a Compensation Advisory Panel, acting as an advisory body for the Board of Directors established voluntarily in order to enhance the objectiveness and transparency of our executive remuneration system. The Compensation Advisory Panel deliberates and reports in response to the consultation request with regard to the compensation for our directors and executive officers (*sikkoyakuin*) including its policy, framework, and calculation method. The Compensation Advisory Panel meets at least annually and monitors the executive compensation status. The Compensation Advisory Panel comprises 5 members; 2 outside directors, 2 outside audit & supervisory board members and the Chairman of the Board of Directors, who acts as chairman of the Compensation Advisory Panel.

#### Outside members of the Compensation Advisory Panel

Motoyuki Oka	JT's outside director
Main Kohda	JT's outside director
Koichi Ueda	JT's outside audit & supervisory board member
Yoshinori Imai	JT's outside audit & supervisory board member

Based on deliberation by the Compensation Advisory Panel, our basic concept of executive remuneration for senior officers is set as follows:

- Setting the remuneration at a level sufficient to secure personnel with superior capabilities
- Linking the remuneration to business performance so as to motivate senior officers to achieve performance
- Linking the remuneration to mid- and long-term corporate value

- Ensuring transparency based on an objective and quantitative framework

In accordance with the above concept, remuneration for the senior officers comprises (1) “basic monthly pay,” (2) an “executive bonus” linked to our business performance in the relevant year, and (3) “stock option grants,” the value of which is linked to our medium-to long-term corporate value. In 2007, JT introduced a stock option program in stock compensation style as an incentive linked to the mid- to long term corporate value of JT.

Remuneration for the directors is structured as follows:

Remuneration for the directors also serving as executive officers (*sikkoyakuin*) comprises “basic monthly pay,” an “executive bonus,” and “stock option grants,” as their duty is to achieve targets of their assigned business through their daily execution of business. As for the president and the executive deputy presidents, if the amount of their “executive bonus” is a standard amount, the total amount of “executive bonus” and “stock option grants” is set at slightly less than 80% of the aggregate amount of their “basic monthly pay.” For other directors, this amount is set at approximately 70% of their basic monthly pay.

Remuneration for the directors not serving as executive officers (*sikkoyakuin*) excluding outside directors comprises “basic monthly pay” and “stock option grants” as their duties require them to participate in decision making regarding group-wide management strategies and perform a supervisory function.

Remuneration for outside directors, which is not linked to business performance from the perspective of maintaining their independence, comprises only “basic monthly pay.”

Remuneration for the auditors comprises basic monthly pay alone, in light of their major duty of conducting compliance audits.

### **[Support for Outside Directors (Outside Auditors)]**

With a view to contributing to the enhancement of discussion at meetings of the Board of Directors, JT has established a system by which the Corporate Strategy Division and the Secretary’s Office cooperate with outside directors by providing them explanation in advance, communicating various relevant matters to them, and offering them materials and other information, in connection with proposals to be submitted to meetings of the Board of Directors.

JT has also established a system to support auditors in performing their duties by establishing an adequate information communication system as well as by setting up an Auditor & Supervisory Board Member’s Office and allocating sufficient staff to the Office so that auditors, in their capacity as independent agents with a mandate from shareholders, can adequately audit the execution of duty by directors and executive officers (*shikkoyakuin*) in order to ensure sound and sustainable growth and maintain and enhance public trust in the company.

## **2. Matters Relating to Functions Such As Execution of Business, Audit and Supervision, Nomination, Determination of Remuneration, etc.(Overview of Current Corporate Governance System) [updated]**

The Board of Directors meets once a month in principle and on more occasions if necessary, in order to make decisions with regard to the matters specified by laws and regulations and other important matters, to supervise business execution and to receive reports from the Directors on the status of business execution.

In order to maintain a high quality of business execution, JT has adopted the Executive Officer (*sikkoyakuin*) System, under which Executive Officers (*sikkoyakuin*) appointed by the Board of Directors execute business in their respective areas of responsibility, in accordance with a company-wide business strategy decided by the Board, by exercising the authority delegated to them. In addition, the Chairman of the Board has been positioned as a non-executive director in order to concentrate on

the function of supervising management while also serving as the chairman of meetings of the Board of Directors. At the general meeting of shareholders on June 22, 2012, JT appointed two outside directors in order to strengthen the supervisory function of the Board of Directors and enhance transparency over its management.

Important management issues, particularly management policy and basic plans regarding overall business operations of the company, in addition to matters to be referred to the Board of Directors are determined quickly through clear decision making process followed by internal rules on the allocation of responsibilities and authorities (hereinafter referred to as the “Responsibilities/Authorities Allocation Rules”).

JT has adopted the Audit Board System under which Auditors, in their capacity as independent agents with a mandate from shareholders, examine the performance of duties by Directors and Executive Officers (*sikkoyakuin*) in order to ensure sound and sustainable growth, and maintain and enhance public trust in JT. Moreover, the standing auditor of JT, Mr. Futoshi Nakamura is eligible as an auditor with profound expertise and experience concerning financial and accounting affairs including his past experience as the head of JT’s Operational Review and Business Assurance Division after engaging in the accounting division and corporate treasury division. In addition, the audit & supervisory board member of JT, Mr. Tomotaka Kojima, is eligible as an audit & supervisory board member because he has not only profound expertise and experience concerning financial and accounting affairs including his past experience as Deputy Head of JT’s Finance Group, but also wide-ranging governmental experience and knowledge of corporate governance through his experience at the Japan Association of Corporate Directors.

In preparation against a situation where the number of Outside Auditors falls below the statutory required number, one Substitute Audit & Supervisory Board member is elected.

The Operational Review and Business Assurance Division, which is responsible for overseeing internal audits, examines and assesses the system for internal management, including the management of group companies, from its objective standpoint as an organization independent from the organizations involved in business execution with due consideration of such viewpoints as relevance, legal compliance, and risk and submits reports and proposals to the President. The division also reports to the Board of Directors. Furthermore, the division is promoting efforts to enhance the audit system for the entire JT Group by cooperating with groups companies both in Japan and abroad.

JT has employed Deloitte Touche Tohmatsu LLC as its Independent Auditor and Deloitte Touche Tohmatsu LLC has conducted audits based on the Companies Act and the Financial Instruments and Exchange Act. The certified public accountants who audited JT’s financial statements for fiscal year ended March 31, 2014 and the persons who assisted the auditing work are as follows.

(Certified public accountants)

Yasuyuki Miyasaka, Satoshi Iizuka, Koji Ishikawa

(Assistants for the audit work)

Certified public accountants: 13 persons, Junior accountants: 9 persons, Others: 9 persons

While Auditors, internal audit organizations including the Operational Review and Business Assurance Division, and the Independent Auditors conduct audits individually, they endeavor to enhance their cooperation in order to ensure appropriate audits, for example by sharing information on the results of their respective audits.

### **3. The Reason for the Adoption of the Current Corporate Governance Structure**

At the general meeting of shareholders on June 22, 2012, JT appointed two outside directors in order to strengthen the supervisory function of the Board of Directors and enhance transparency over its management.

JT recognizes that prompt and proper decision-making and business execution are vital to increasing our corporate value and responding appropriately to new challenges to come in the future, as the business and social environment change. Based on this recognition, JT has been striving hard to enhance corporate governance as a top management priority.

### **III Implementation of Measures Related to Shareholders and Other Interested Parties**

#### **1. States of Efforts to Invigorate General Meeting of Shareholders and Facilitate the Exercise of Voting Rights**

	<b>Supplementary Explanation</b>
<b>Sending the notice of a General Meeting of Shareholders at an early date</b>	The notice of a General Meeting of Shareholders for both 2013 and 2014 was sent on May 30 .
<b>Avoiding scheduling a General Meeting of Shareholders for a date on which many other companies' shareholders' meetings are concentrated</b>	A General Meeting of Shareholders for 2013 was held on June 21 and that for 2014 was held on June 24 Neither of them were on the peak day.
<b>Allowing the exercise of the voting right through electromagnetic means</b>	JT allows the exercise of the voting right via the website designated by the company (E-voting)
<b>Participation in Platform for exercise of voting Rights by Electromagnetic Means and other Measures to Enhance Environmental for Exercise of Voting Rights by Institutional Investors</b>	JT participates in an electronic platform for the exercise of voting right for institutional investors that is operated by ICJ, Inc.
<b>Providing Convocation Notice(Summary) in English</b>	The convocation notice and its English translation are published on the company's website and electronic platform for institutional investors.

#### **2. IR-related activities**

	<b>Supplementary Explanation</b>	<b>Presence or absence of a briefing by the Representative Director.</b>
<b>Periodic briefings for analysts and institutional investors</b>	JT holds briefing sessions after the announcement of earnings at its offices or neighboring facilities.	Present
<b>Periodic briefings for overseas investors</b>	JT holds teleconferences for overseas investors after the announcement of earnings, and JT officials visit overseas investors several times every year to provide briefings.	Present
<b>Publication of IR materials on the website</b>	JT publishes information concerning earnings, other timely disclosure materials, materials used at earnings briefings, annual securities reports or quarterly securities reports, convocation notice for General Meetings of shareholders.	
<b>Establishment of a division (appointment of an officer) in charge of IR</b>	JT has appointed an officer dedicated to IR at the Media & Investor Relations Division who reports to the executive in charge of communications.	

### 3. Status of Efforts to Respect the Standpoint of Stakeholders

	<b>Supplementary Explanation</b>
<b>Establishment of internal rules, etc. concerning the respect of the standpoint of stakeholders</b>	<p>Our management principles are based on the pursuit of the “4S model” (“S” is for satisfaction). The model requires us to fulfill our responsibility towards four classes of stakeholders—consumers, shareholders, employees and society, with a particular emphasis on consumers—in a well-balanced and high level manner ensuring satisfaction for all of them.</p> <p>We created our vision and mission based on the 4S model. Our vision is to become a company committed to global growth by providing diversified value that is uniquely available from JT Group. Our mission is to create, develop and nurture our unique brands to win consumer trust, while understanding and respecting the environment and the diversity of societies and individuals.</p> <p>In order to accomplish, we have set “The JT Group Way” as code of conduct which all of the JT Group members should make apply. The JT Group Way requires that we: fulfill the expectations of our consumers and behave responsibly strive for quality in everything we do through continuous improvement and leverage diversity across the JT Group.</p>
<b>Implementation of environment protection activity, CSR activity, etc.</b>	<p>From the viewpoint of achieving the JT Group Mission, JT engages in such activities as reducing the burden on the environment, making contributions to local communities, tree-planting and forest preservation, and youth education and development, and it publishes the contents of those activities through an annual sustainability report.</p>
<b>Formulation of the policy concerning the provision of information to stakeholders</b>	<p>In order to clarify the authorities and responsibilities concerning the handling of various corporate information, JT has established rules concerning information disclosure and strives to ensure timely and appropriate information disclosure.</p>

## **IV Concept regarding the Internal Control System**

### **1. Basic Concept of the Internal Control System and Development of the System[updated]**

JT has been endeavoring to ensure appropriate business operations through efforts to enhance compliance, internal audits and risk management, and implementing measures to ensure the effectiveness of audits, such as improving arrangements and procedures for reporting the necessary matters to Auditors, as is required of a company adopting the Audit Board System.

We will continue these efforts while reviewing and revising the current system as necessary, and ensure appropriate business execution by taking the following step:

- (1) System to ensure that Directors and employees perform their duties in accordance with laws, regulations and the company's articles of incorporation

With regard to the compliance system, JT has established the Guidelines for Conduct based on internal rules concerning compliance in order to ensure that Directors and employees comply with laws, regulations, the company's articles of incorporation, the social norms, etc., and set up the JT Compliance Committee as an organization responsible for ensuring thorough compliance. This committee, headed by the company's Chairman, includes outside experts among its members and reports directly to the Board of Directors. Meanwhile, the Compliance Office is charged with overseeing efforts to improve the company-wide compliance system, identify compliance problems and enhance the effectiveness of the compliance system by enlightening Directors and employees about compliance through various compliance education programs.

Regarding the internal reporting system (whistle-blower system), JT has a counter through which employees may report any misconduct they have detected. The Compliance Office is charged with investigating reported cases and implementing company-wide measures to prevent the recurrence of misconduct after holding consultations with the departments and divisions concerned. Matters of particular importance shall be referred to the JT Compliance Committee for deliberation.

In order to ensure the reliability of its financial reporting, JT is operating a relevant internal control system that it has established in accordance with the Financial Instruments and Exchange Act. By allocating a sufficient level of staff to the task of evaluating financial results and reporting them, the company is striving to maintain and improve the reliability of its financial reporting.

The internal audit system is overseen by the Operational Review and Business Assurance Division, which examines and evaluates systems for supervising and managing the overall operations of the company and the status of business execution from the viewpoints of legality and rationality, in order to protect the company's assets and improve management efficiency.

- (2) Procedures and arrangements for storage and management of information on the performance of duties by the Directors

JT makes sure to properly store and manage the minutes of Annual General Meetings of Shareholders and meetings of the Board of Directors in line with laws.

Information on other important matters relating to business execution and decision-making are stored and managed by the relevant departments and divisions as specified by internal rules on the allocation of responsibilities and authorities (hereinafter referred to as the "Responsibilities/Authorities Allocation Rules"), in accordance with rules on the supervision of the processes of decision-making, procurement and accounting.

- (3) Rules on management of risk of loss and procedures/arrangements for other matters

JT has established internal rules on the management of risk of loss relating to monetary and financial affairs, and ensures that relevant reports are made to the President and the Board of Directors on a quarterly basis.

With regard to risk of loss relating to other affairs, the relevant departments and divisions specified by the Responsibilities/Authorities Allocation Rules conduct proper management, identifying risk and reporting it to the President and getting approval of measures, depending on the importance of the identified risk.

JT has assigned sufficient staff to the Operational Review and Business Assurance Division, which functions as the company's internal audit organization. This division examines and evaluates the internal control systems of JT and JT Group companies – in light of the importance of internal control procedures and arrangements and the risks involved – from an objective viewpoint, in its capacity as an entity independent of the organizations responsible for business execution, and reports its findings and present proposals to the President, as well as reporting to the Board of Directors.

To prepare for possible emergencies, JT has produced a manual for crisis management and disaster response. In the event of an emergency or a disaster, JT is ready to establish an emergency project system under the supervision of the Corporate Strategy Division, and make prompt and proper responses under the leadership of senior management and through close cooperation between the relevant departments and divisions.

(4) System to ensure that Directors perform their duties efficiently

The Board of Directors meets once a month in principle and on more occasions as necessary, in order to make a decision with regard to the matters specified by laws and regulations and other important matters and to supervise business execution. Important management issues, particularly management policy and basic plans regarding overall business operations of the company, in addition to matters to be referred to the Board of Directors are determined at the deliberation in the meeting body composed of the President and member appointed by the President or through system utilization followed by Responsibilities/Authorities Allocation Rules definitely.

JT has adopted the Executive Officer (*shikkoyakuin*) System, under which Executive Officers (*shikkoyakuin*) appointed by the Board of Directors execute business in their respective areas of responsibility, in accordance with a company-wide business strategy decided by the Board, by exercising the authority delegated to them.

Moreover, in order to ensure that business operations are managed in ways that contribute to the business efficiency and flexibility of the company as a whole, basic matters concerning the company's organization, allocation of duties to Officers and staff and the roles of individual divisions are specified by the relevant internal rules. Meanwhile, in order to enable prompt decision-making, the departments and divisions responsible for business execution are specified by the "Responsibilities/Authorities Allocation Rules."

(5) System to ensure the appropriateness of business operations within the JT Group

The JT Group has set itself the mission of creating, developing and nurturing its unique brands to win consumer trust, while understanding and respecting the environment and the diversity of societies and individuals, and there is a group-wide consensus on the mission. We have specified the functions and rules necessary for group management based on a group management policy, in order to optimize the operations of the entire JT Group as a whole.

Moreover, we have been enhancing our systems for compliance (including the internal reporting system), internal audits, financial affairs management, etc. in cooperation with JT Group companies.

(6) System for employees assisting Auditors and reporting to Auditors, and other systems to ensure effective auditing

JT has allocated sufficient staff to the Auditor's Office as an organization supporting the Auditors in performing their duties. In addition, JT makes sure to review and reform the staffing structure as necessary based on consultations with the Audit & Supervisory Board. The Audit & Supervisory Board is involved in



the selection of personnel of the Auditor & Supervisory Board Member's Office in order to ensure the office's independence from Directors.

When Directors and Executive Officers (*shikkoyakuin*) detect any matter that may cause substantial damage to the company, they are due to report it to the Audit Board. Moreover, when Directors and employees detect any evidence of malfeasance in financial documents or serious breaches of laws or the company's articles of incorporation, they are due to report them to the Audit Board, along with other relevant matters that could affect the company's management.

Auditors are allowed to attend not only meetings of the Board of Directors but also other important meetings. When Directors and employees are asked by Auditors to compile important documents available for their perusal, to accept field audits and to submit reports, they are due to respond to the request in a prompt and appropriate manner.

Furthermore, Directors are due to cooperate with audits and ensure the provision of funds necessary for covering audit-related expenses so as to secure their effectiveness. The Operational Review and Business Assurance Division and the Compliance Office maintain cooperation with Auditors by exchanging information.

## **2. Basic Concept to eliminate Anti-social Forces and its Maintenance**

### **(1) Basic concept to eliminate Anti-social Forces**

JT is resolved not to have any relations with, and to fight against, anti-social groups and organizations.

### **(2) Efforts to exclude anti-social elements**

With the General Administration Division at JT's headquarters assuming the responsibility for supervising efforts to exclude anti-social elements, the Officers are cooperating with police, lawyers and other relevant organizations and parties to gather and share information in order to deal with such elements in an organized way.

JT has established the Guidelines for Conduct based on internal rules not to have any relations with anti-social groups and organizations. JT also consistently educates employees, including those working for its affiliates, about the importance of excluding antisocial elements by providing relevant training as necessary.

## **V Others**

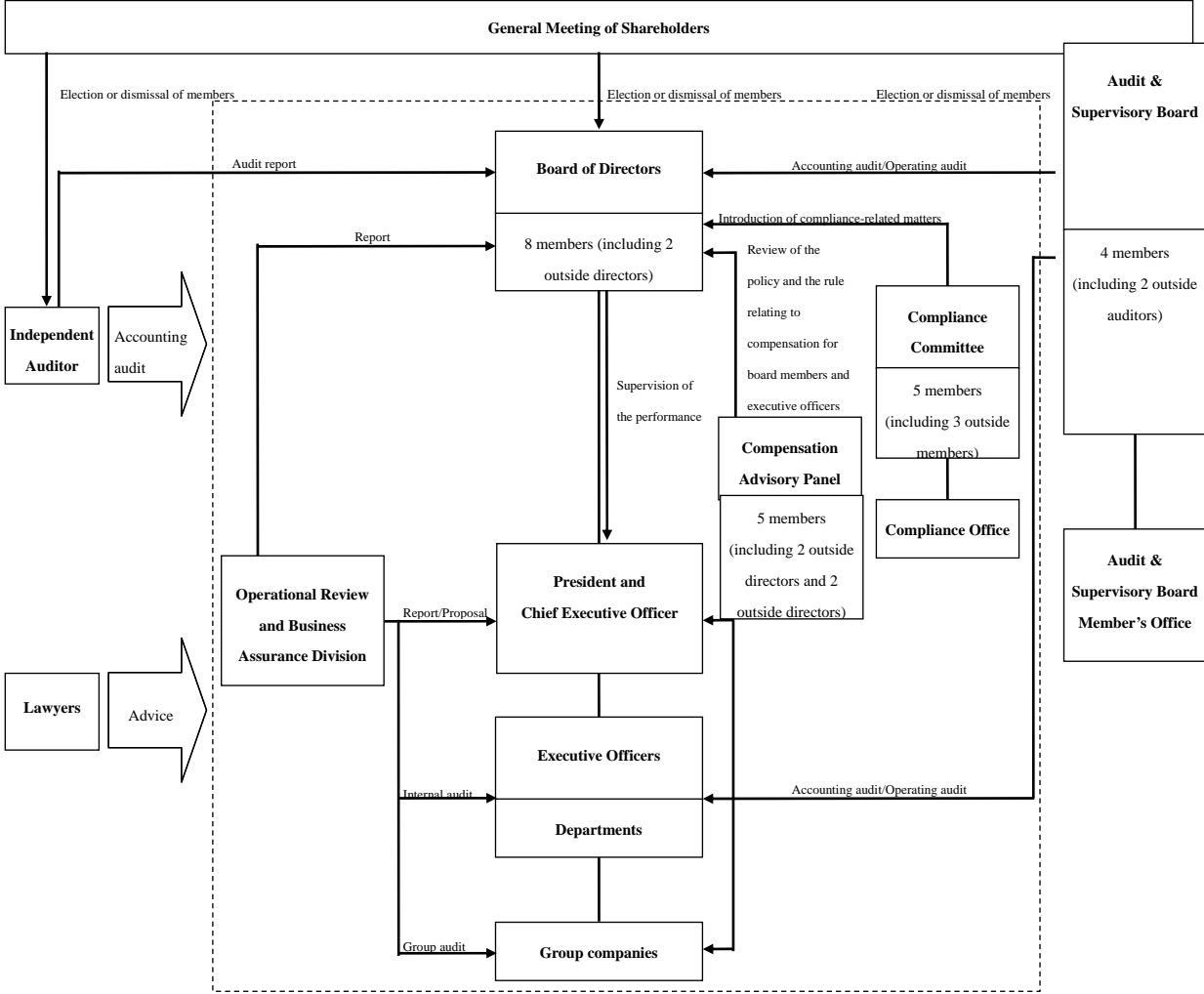
### **1. Matters Related to Defense against Takeover**

Nothing to report

### **2. Other Matters Related to the Corporate Governance System [updated]**

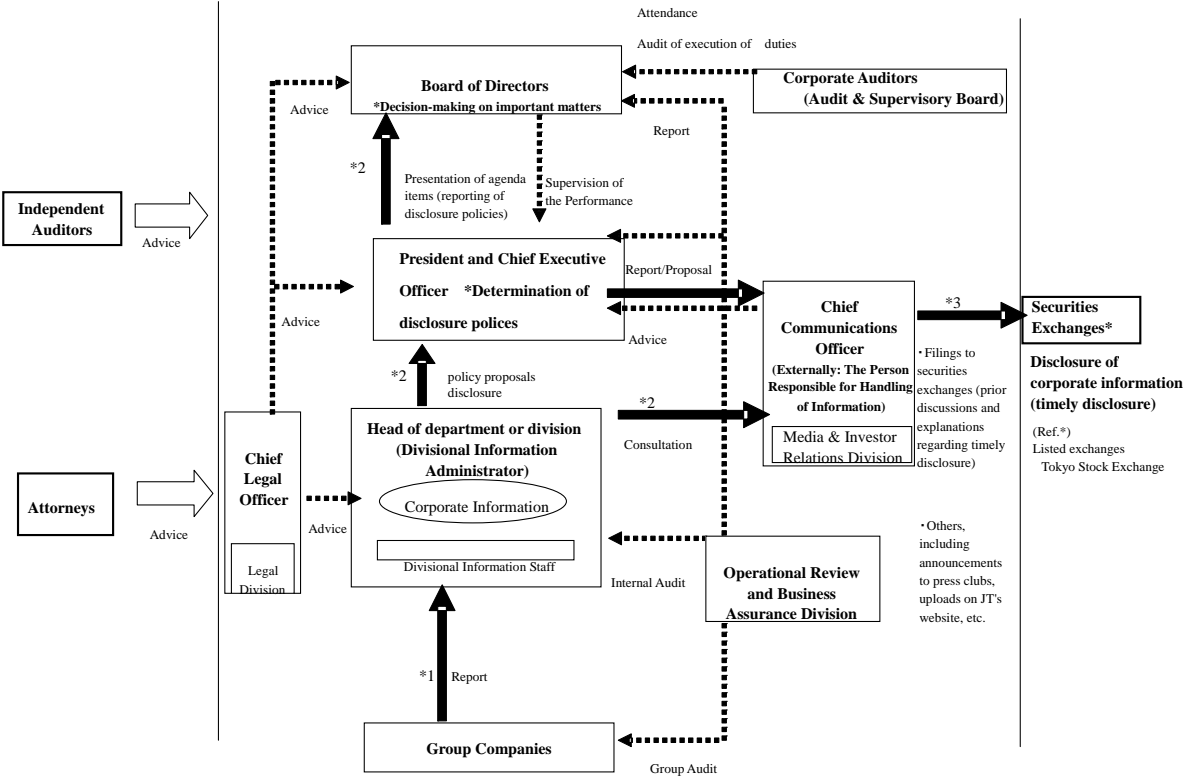
The following is an overview of the status of JT's corporate governance system and timely disclosure system.

**[Reference: Organization]**



In preparation against a situation where the number of Outside Auditors falls below the statutory required number, one Substitute Audit & Supervisory Board member is elected.

# Overview of Timely Disclosure System



**————>** Flow of disclosure policy determination and timely disclosure  
**.....>** Internal controls

**Securities Exchanges\***  
**Disclosure of corporate information (timely disclosure)**  
 (Ref\*)  
 Listed exchanges  
 Tokyo Stock Exchange

\* Others, including announcements to press clubs, uploads on JT's website, etc.

## 1. The Person Responsible for Handling of Information

- (1) JT has in place regulations regarding information disclosure in an effort to clarify its authority and responsibilities with respect to all its corporate information and works to disclose information on a timely and appropriate basis.
- (2) JT appoints its Chief Communications Officer as the Person Responsible for Handling of Information required by stock exchanges who is in charge of information disclosure.
- (3) Each head of division is appointed as the Divisional Information Administrator and has Divisional Information Staff who collects and manages departmental information on a centralized basis, including the information on JT Group companies under the control of that division.
- (4) The Media & Investor Relations Division, which is directly under the control of the Chief Communications Officer, plans, proposes and implements information disclosure and shares information with Divisional Information Staff.
- (5) The Chief Communications Officer set forth the timely disclosure criteria to each head of division, letting them know of any changes to timely disclosure rules whenever necessary, and receives reports from them on corporate information.

## 2. Determination of disclosure policies and timely disclosure

- (1) Each head of division collects and manages departmental information on a centralized basis as a departmental information by not only collecting and managing departmental information itself but also obtaining necessary information from JT Group companies under its control jurisdiction.\*1
- (2) When a decision is to be made on important matters based on the Responsibilities/Authorities Allocation Rules, each head of division presents the issues involving external communication including timely disclosure to the Chief Communications Officer and gets permission from the President and Chief Executive Officer about disclosure policies on such facts. Any important item that requires a decision by the Board of Directors based on the internal rules on the Board of Directors is presented to the Board of Directors, to which disclosure policy are also reported.\*2
- (3) The Chief Communications Officer effects timely disclosure subsequent to any decision on an important matter based on determined disclosure policies. When disclosing corporate information, JT provides preliminary explanations to securities exchanges according to their timely disclosure rules and, whenever necessary, makes prior consultations with securities exchanges.\*3

## 3. Internal controls

- (1) The Board of Directors decides on items provided by laws and regulations as well as important matters, receives reports on the status of the execution of duties (including disclosure policies) and monitors same.
- (2) Auditors constitute an independent organ of the Company in an adversary capacity with respect to Directors and conduct audits on same. Auditors attend meetings of the Board of Directors and provide opinions whenever necessary.
- (3) The Operational Review and Business Assurance Division examines and evaluates (audits) the internal control systems of JT and JT Group companies – in light of the importance of internal control mechanisms and the risks involved – from an objective viewpoint, in its capacity as an entity independent of the organizations responsible for business execution, and reports its findings and presents proposals to the President and Chief Executive Officer, and provides reports to the Board of Directors.
- (4) The Chief Legal Officer provides opinions, whenever necessary, to the Board of Directors. The Legal Division provides support to each division with respect to timely disclosure with specialized knowledge.

#### 4. Participation of the Independent Auditor and attorneys

- (1) JT is audited by the Independent Auditor based on the Financial Instruments and Exchange Act and the Companies Act. Regarding the timely disclosure of information on financial results, JT has a system in place for obtaining necessary advice and guidance from such Independent Auditor.
- (2) JT has in place a system to obtain advice and guidance from multiple law firms regarding timely disclosure whenever needed.